# TCRS REPORT

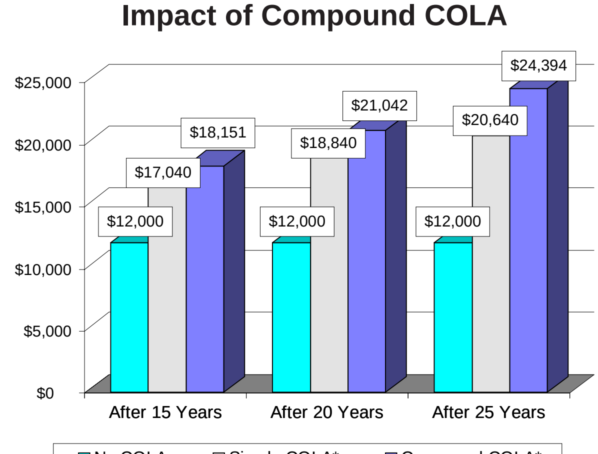
Produced for active members of the Tennessee Consolidated Retirement System ● Volume 19, No. 2 ● Summer 1998


## Legislation Improves Benefits

Public employees received a boost from the General Assembly. From increasing the amount of insurance paid by the state for teachers to changing the method used to calculate the cost-of-living adjustments for retired members, benefits for public employees were enhanced.

One significant improvement was changing the COLA method from a simple method to a compound method. The compound COLA increases retirement benefits dramatically throughout the years. The chart at right illustrates the differences between no COLA, a simple COLA and a compound COLA.

See Page 2 for details on legislation enacted.



* Assumes 3% inflation rate and first-year benefit of $12,000.

## More Members Are Eligible To Deduct IRA Contributions This Year

For the first time since income limits were first established in 1987, there will be an increase in the income levels which determine whether someone who is eligible for an employer-sponsored retirement plan can deduct contributions to a traditional IRA. If you are eligible to participate in TCRS, you may deduct IRA contributions from your taxable income in 1998 if your income falls below the following new limits. Your limit is based on your tax filing status.

**Single or Head of Household**

- If your modified adjusted gross income (AGI) is below $30,000, you may deduct the full amount of the contributions you make to a traditional IRA for 1998.
- If your AGI is between $30,000 and $40,000, you may deduct a portion of your contributions.
- If your AGI is above $40,000, you may not deduct any 1998 IRA contributions.

**Married, Filing Jointly**

*Your Contributions*

- If your AGI is below $50,000, you may deduct the full amount of your 1998 traditional IRA contributions.
- If your AGI is between $50,000 and $60,000, you may deduct a portion of your contributions.
- If your adjusted gross income is above $60,000, you may not deduct any 1998 IRA contributions.

*Your Working Spouse's Contributions*

If you are eligible to participate in TCRS but your spouse is not eligible to participate in any employer-sponsored retirement plan, a separate set of income limits now determines whether his or her IRA contributions are deductible.

- If your joint AGI is below $150,000, the full amount of your spouse's 1998 IRA contributions may be deducted.
- If your AGI is between $150,000 and $160,000, a portion of your spouse's contributions may be deducted.
- If your joint AGI is above $160,000, none of your spouse's 1998 IRA contributions may be deducted.

**Married, Filing Separately**

- If your AGI is between $0 and $10,000, you may deduct a portion of your 1998 traditional IRA contributions.
- If your AGI is above $10,000, you may not deduct any 1998 IRA contributions.

For more information on IRAs, call the IRS at 1-800-829-3676 and ask for free publications 553 and 590. Information will also be provided in the 1998 1040 Instructions.

# Legislative News

The 100th General Assembly adopted the following legislation.

### Mandatory Retirement

Age 60 is now the mandatory retirement age for public safety officers in the Department of Safety, TBI, TWRA, and ABC. Individuals in supervisory and administrative positions, which perform less than 50% of their duties to be involved in day-to-day law enforcement, may continue until age 62 provided they sign the continuation form one month prior to attaining age 60.

The Department of Personnel is responsible for determining whether a public safety officer is subject to mandatory retirement as permitted by the Age Discrimination Employment Act (ADEA). ADEA allows governmental entities to establish a mandatory retirement for public safety officers.

A local government may establish mandatory retirement at age 60 or older for its public safety officers. The local government may choose not to set a mandatory retirement age. The chief governing body will be responsible for the enactment, if any, of a mandatory retirement age.

### Group 2 Service Retirement

Group 2 public safety officers are now eligible to retire on service retirement upon completion of 30 years of service. The provisions of this act are optional to local governments.

### Group 3 Service Retirement

Group 3 members may now retire upon completion of 30 years of service. Generally Group 3 members include elected county judges and officials entering the system between 1972 and 1976.

### Benefit Limitations for Group 1 and Class C

The maximum benefit of Group 1 members and Class C state police officers of the superseded state retirement system was increased from 78¾% to 84%.

### Pre-Medicare Insurance Support for K-12 Teachers

Up to 45% of K-12 teacher premiums will be paid for those in the Local Education Insurance Plan operated by the state. Previously, family coverage was $431.55 and single coverage was $172.91. The level of support now depends on the years of service.

| Years Service | Support | Family | Single |
|---|---|---|---|
| <20 | 25 % | $ 323.66 | $ 129.68 |
| 20-29 | 35 | 280.51 | 112.39 |
| 30+ | 45 | 237.35 | 95.10 |

### Medicare Supplement

The Medicare supplement support will increase up to $40 per month. The annual appropriation increased 33% from $1.7 million to $7.0 million. The new support levels based on service follow.

| Years Service | Support | Plan 1 | Plan 2 |
|---|---|---|---|
| <15 | none | $ 95.88 | $ 127.31 |
| 15-19 | $20 | 75.88 | 107.31 |
| 20-29 | 30 | 65.88 | 97.31 |
| 30+ | 40 | 55.88 | 87.31 |

*Optional to Local Government*

### COLA Improvement

Previously, the cost-of-living adjustment (COLA) for retired members was calculated using a method known as a simple COLA. Now, the compound COLA method is used. This was enacted at a cost exceeding $100 million a year.

A person retired from a political subdivision is granted a COLA if the local governing body has passed a resolution approving the COLA. Local governments would also have to pass a resolution to change from the simple COLA to the compound COLA.

### Other Improvements Made

The General Assembly also made a change to the way the COLA is calculated. Previously, if the Consumer Price Index (CPI) was below 1%, a COLA was not granted. Further, if there was a period of deflation where the CPI was negative, then a decrease in benefits would occur. Now, if the CPI is between .5% and 1%, the COLA will be 1%. If the CPI is between 1% and 3%, the COLA will be the actual percent. If the CPI is above 3%, the COLA will be 3%. If a period of deflation occurs, there will be no reduction in benefits.

## TCRS Board Members

Welcome to Mahlon Bryan of Hamblen County, who was elected to serve a three-year term on the Tennessee Consolidated Retirement System's Board of Trustees. The Tennessee Education Association elected Bryan as their East Tennessee Representative.

Congratulations to Betty Long who was reappointed by the Governor to serve another two-year term on the Board of Trustees as a state retiree representative.

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# Savings Options Expanded by Taxpayer Relief Act of '97

Congress has created more tax breaks for Americans who want to save for retirement. The Taxpayer Relief Act of 1997 made more people eligible for traditional Individual Retirement Accounts (IRAs), removed the penalty tax from some early withdrawals, created the Roth IRA, and increased contribution limits in 457, 401(k), and 403(b) plans.

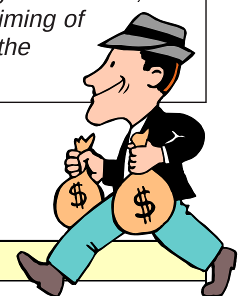
The chart on the next page compares the features of the traditional IRA and the new Roth IRA. Traditional IRAs allow you to deduct contributions of up to $2,000 per year if your income falls within the eligibility limits. With a Roth IRA, the tax advantage comes at the time you withdraw your earnings instead of at the time you make contributions. Roth IRAs can be used by more people because the income eligibility limits are higher. Individuals who are eligible may use both, but combined contributions for any one year can't exceed $2,000.

Keep in mind that the amount you contribute to a 401(k), 457, or 403(b) plan through your employer does not reduce the amount you can contribute to an IRA. In fact, your contributions to a 401(k), 457, or 403(b) plan may even help you qualify to deduct contributions to a traditional IRA because they reduce your adjusted gross income.

**How much you could have at retirement if you save $2,000 every year**

| | |
|---|---|
| **5 years** | **$12,245** |
| **10 years** | **$30,490** |
| **20 years** | **$98,170** |
| **30 years** | **$248,400** |

*This example assumes level monthly contributions and an earnings rate of 8% compounded monthly. Your results could be higher or lower, depending on the timing of your deposits and the rate you earn.*



## Selecting the Best Savings Option Depends on Your Goal

| Your Goal | The Best Solution |
|---|---|
| Cut current taxes | Your contributions to a 457, 401(k) or 403(b) plan will reduce your current taxes. If your income is within the eligibility limits, contributions to a traditional IRA will also reduce your current taxes. |
| Save for a first home | The Roth IRA may be your best choice. You may withdraw up to $10,000 tax-free from a Roth IRA for first-time home purchase expenses, as long as your deposit has been there for at least 5 years. |
| Minimize taxes and maximize net retirement income | If you will be in a lower tax bracket after you retire than you are in now, you'll pay less taxes using your 457, 401(k), or 403(b) plan or a traditional IRA.<br>If you will be in a higher tax bracket after you retire than you are in now, you'll pay less taxes using a Roth IRA.<br>If you will be in the same tax bracket after you retire as you are in now, it doesn't make much difference which type of plan you use, assuming you expect to meet the conditions for a tax-free withdrawal from a Roth IRA.<br>If you don't expect to leave your money invested for 5 years and until age 59½, you'll be better off with a traditional IRA or your 457, 401(k), or 403(b) plan. |
| Preserve estate | The Roth IRA is the best choice since it doesn't require you to begin withdrawals by age 70½. |
| Retire before age 59½ | A 457 plan is currently the best choice since the 10% early distribution penalty doesn't apply to 457 plans.<br>If you will be 55 or older when you retire, a 401(k) or a 403(b) plan would also be a good choice since the penalty is waived under those conditions. |
| Save as much as possible | Generally, higher income employees can contribute the most by using a 401(k) or 403(b) plan, while anyone earning less than $32,000 may be able to set aside more by using a 457 plan.<br>Employees close to retirement age may qualify to defer more by using the catch up provision of their 457 or 403(b) plan.<br>If you've contributed the maximum to your employer plan and still want to save more (or if your employer doesn't offer a plan), a Roth IRA would be the next best choice, assuming you can leave the money there for 5 years and until age 59½. |

# Do you have a question?

We want to help! Contact us via telephone, e-mail or by US mail or visit our Internet site.

### Telephone Directory

Benefits and Counseling ..................... (615) 741-1971
Prior Service .......................................... (615) 741-4868
Account Srvc. (annual statements) .... (615) 741-5588
Refunds ................................................... (615) 741-4925

### E-mail Directory

Benefits and Counseling
TCRS.Counseling@mail.state.tn.us
Member services
TCRS.Member-Services@mail.state.tn.us

### Mail

Tennessee Consolidated Retirement System
10th Floor Andrew Jackson Building
Nashville, Tennessee 37243-0230

### Internet

www.treasury.state.tn.us/tcrs.htm

## Notice for members of Prior Class B and C

Prior Class B teachers, Class B local teachers, Prior Class B state employees, and Class C members who choose to work past the service retirement eligibility date of the superseded system may elect to stop making contributions to TCRS.

Making this election will have no adverse effect on future retirement benefits. Members will continue receiving service and salary credit after filing elections.

Prior Class B teachers, Class B local teachers, and Prior Class B state employees may file elections with TCRS to stop making contributions to TCRS when they attain age 60 and complete 35 years of service. Prior Class C state police officers may elect to stop making contributions when they attain 25 years of service.

For local teachers, this election has no effect on their obligation to continue contributing to their local system; however, it will increase their TCRS benefit at retirement. Class B local teachers began teaching prior to July 1, 1972 and participate in the Knoxville, Chattanooga, Hamilton County, Metro Nashville, Jackson or Memphis local retirement system.

Election forms and further information may be obtained from the TCRS Account Services section.

# Comparison of Traditional IRA and New Roth IRA

| Provision | Traditional Deductible IRA | New Roth IRA |
|---|---|---|
| 1998 Contribution Limits | Lesser of 100% of earned income or $2,000 | Lesser of 100% of earned income or $2,000 |
| Do Contributions Count Toward $2,000 Ceiling on Total IRA Contributions? | Yes | Yes |
| Are Contributions Deductible in Year Made? | Yes, if individual meets eligibility conditions | No |
| 1998 Income Eligibility (Modified AGI) Limits<br>• Single or Head of Household:<br>• Married, Filing Jointly: | If eligible for employer pension plan:<br>$30,000 - $40,000<br>$50,000 - $60,000<br>If not eligible for employer pension plan:<br>No limits unless spouse is eligible for a plan | <br>$ 95,000 - $110,000<br>$150,000 - $160,000 |
| May Contributions Be Made After Age 70½? | No | Yes, if income is earned |
| Are Loans Available? | No | No |
| Are Withdrawals Required to Begin by 70½? | Yes | No |
| When Are Withdrawals Permitted? | Anytime | Anytime |
| Income Tax on Withdrawals | Applies to total withdrawal | Amount contributed not taxable; Earnings may be tax-free if account is 5 yrs. old and withdrawal occurs after age 59½, disability or death or is <$10,000 for first-time home purchase. |
| Additional 10% Penalty Tax on Withdrawals | Applies to total withdrawal, unless individual qualifies for exception | Applies to taxable earnings (if any), unless individual qualifies for exception |
| Exceptions to Additional 10% Penalty Tax | • Age 59½, Death, or Disability<br>• Certain Medical Expenses<br>• Substantially Equal Payments over Lifetime<br>• Qualified Higher Education Expenses<br>• First-Time Home Purchase Expenses up to $10,000 | • Age 59½, Death, or Disability<br>• Certain Medical Expenses<br>• Substantially Equal Payments over Lifetime<br>• Qualified Higher Education Expenses<br>• First-Time Home Purchase Expenses up to $10,000 |
| Rollovers Permitted | Tax-deferred rollover to another deductible IRA; or taxable conversion to Roth IRA under certain conditions (AGI <$100,000; don't file separately) | Tax-deferred rollover to another Roth IRA |